



PUBLIC EMPLOYEE RETIREMENT SYSTEM OF IDAHO
607 North 8th Street
BOISE, IDAHO 83702

MINUTES
OF
MEETING OF RETIREMENT BOARD

The Board of the Public Employee Retirement System of Idaho met at the PERSI Administration Building, 607 North Eighth Street in Boise, Idaho at 8:30 a.m., October 22, 2002. The following members were present:

Jody B. Olson
Dennis L. Johnson
Susan K. Simmons
Pamela I. Ahrens

Trustee J. Kirk Sullivan was absent and excused. The electronic projection of materials and documents discussed in the meeting was handled by Carol Peterson. Executive Director Alan H. Winkle, Deputy Attorney General Brad Goodsell, Financial Officer James Monroe, Chief Investment Officer Robert Maynard, and Management Assistant Joanne C. Ax were also in attendance. Other persons attending portions of the meeting were:

Rod MacKinnon
Bruce Reeder
Drew Black
Casey Maslonka
Brian McGrath
Doug Bates
Tim Dunn
Brent Nye
Matt Freeman
Robert Schmidt

Mountain Pacific Investment Advisors
Mountain Pacific Investment Advisors
DB Fitzpatrick & Co.
DB Fitzpatrick & Co
DB Fitzpatrick & Co
Clearwater Advisors
Clearwater Advisors
Boise School District
LSO-BPA
Milliman USA

Jim Shakelford	IEA
Charlie Brown	REAL
Dennis Doan	PFFI
Doug Dorn	R.V. Kuhns & Assoc.
Keith Gabriel	IPEA River Run Retirees
Maria Barrett	Office of the Governor
Richelle Sugiyama	PERSI
Judy Aitken	PERSI
John R. Doner	PERSI
Susan Shaw `	PERSI
Gay Lynn Bath	PERSI
Becky Reeb	PERSI

OLD BUSINESS

Approval of the Minutes: By motion duly made by Trustee Simmons and seconded by Trustee Johnson, the Board unanimously approved the minutes of the September 24, 2002, regular meeting of the Retirement Board as submitted.

PORTFOLIO

Monthly Portfolio Update Mr. Maynard discussed his investment report dated October 21, which he had updated from the one previously furnished to the Board. In the report, Mr. Maynard noted the following:

Since the last Board meeting, the fund has advanced approximately 0.7%. The path, however, was one of a sharp drop during earnings "pre-announcements" (when mostly bad news was being released about corporate earnings), followed by a short, sharp market rise (concentrated primarily in large cap stocks, which have hurt some managers with current small-cap biases, such as Brandes) in mid-October as some good earnings news developed.

All managers are either within their expected characteristics or have reasonable explanations for slight deviations.

The portfolio as a whole has reverted to its primarily defensive character that it exhibited late last year. This means that if the market turns around quickly, as it did in mid-October, our relative performance will lag for awhile. This lag is seen in the underperformance compared to the passive benchmarks when there was the recent sharp rise.

Mr. Maynard's report stated the current value of the fund as of October 21, 2002 was \$5,867,344,678. The fiscal year-to-date return percentage is negative 7.1% and the month-to-date return was a positive 3.1%. He reviewed his report showing cumulative returns up some from the last Board meeting. The economy still looks soft. He noted that the fund is still in a defensive position. As the markets improve and we see a longer term trend, the managers will reposition for rising markets. All the managers are maintaining their particular styles and investment focus which is what we want. As their particular area gains favor and comes back in the market, we will be invested in those areas. Mr. Maynard will not rebalance this month because our allocation is near our target.

Second Quarter Report: Mario Gianinni of Hamilton Lane Advisors reviewed the report which had previously been provided to the Board. It listed PERSI holdings by strategic diversification geographically as well as by industries and investment partner types. Local alternative investments include Highway 12 and IdaCorp. Mr. Gianinni said at the direction of Mr. Maynard, his company honors requests from Idaho companies to make presentations to his staff. Mr. Maynard commended Mr. Gianinni saying that he knows Hamilton Lane has provided additional guidance and education to Idaho companies whose offerings did not meet PERSI's institutional quality investment standards, explaining how to cure the deficiencies and how to appeal more to institutional investors. This education is valuable to Idaho and is above and beyond what is generally provided. We appreciate this service to Idaho.

Chairman Olson said PERSI began alternative investing about 10 years ago with an investment in Saugatuck Capital, Stanford Connecticut. Chairman Olson previously served on the Saugatuck advisory board and is currently serving on the Galen advisory board. CIO Maynard said we consider Idaho investments that are of institutional quality and with good returns. He referenced our local managers, Clearwater, D.B. Fitzpatrick and Mountain Pacific who continue to be good performers in our portfolio. PERSI does not provide 100% funding for investments; other private funding must also be involved. For instance, we would have provided 40% funding for Sawtooth, but they were not able to raise the other 60%.

Mr. Olson reminded the meeting that decisions to hire specific managers are not made by the entire Board. Those decisions are made by an investment committee (currently composed of Trustee Simmons, CIO Bob Maynard and Consultant Doug Dorn).

Other Investment Business: Chairman Olson opened the floor to comments from managers who were attending the meeting. The recovery continues to be slow and most managers are expecting another six to nine months of volatility.

FISCAL:

Expense Reports: Financial Officer James Monroe reviewed the Administrative and Portfolio expense reports for the month ended September, 2002, which had previously been furnished to the Board. In response to a question from the Chair, Mr. Monroe and Mr. Winkle said the Portfolio budget will need legislative approval again this year, in spite of the original intention to have this on a 2-year trial basis. Mr. Monroe

said he understands it is being appropriated to provide oversight of the total staff. Chairman Olson said trustees must be able to spend whatever is necessary to administer and operate the trust fund. For the 11th year, PERSI has received the GFOA Award of Excellence and our financial reporting is open, audited and transparent.

LEGAL:

Expand Hearing Officer Register: By motion duly made by Trustee Ahrens, seconded by Trustee Johnson and unanimously approved, the Board added the name of Ralph Blount to the hearing officer registry for contested case hearings. Deputy Attorney General Brad Goodsell indicated that the names of candidates for the registry had been obtained from within the Attorney General's office.

OTHER BUSINESS:

Chairman Olson asked about the audit process. Trustee Simmons said she had met with the audit staff, with and without PERSI staff present, and reviewed their findings. She expects the full report to be presented at the November meeting.

EXECUTIVE DIRECTOR

Base Plan Actuarial Valuation – Details of this valuation were discussed at the September Board meeting. Actuary Robert Schmidt of Milliman, USA discussed the minor changes to charts and tables that had previously been furnished to the Board. By motion duly made by Trustee Johnson, seconded by Trustee Simmons and unanimously approved, the Board adopted the Actuarial Valuation dated July 1, 2002.

Preliminary FRF Valuation: Actuary Robert Schmidt reviewed draft versions of tables from the upcoming Firefighters Retirement Fund Valuation. Cost of Living Adjustments for retirees from this fund are based on average statewide salaries as opposed to the 1% COLA PERSI plan retirees receive. FRF is a declining group now numbering less than 100. Chairman Olson asked for a report of how many are active and how many are retired in this group. Mr. Schmidt will provide that.

Contribution Rate Discussion: Mr. Schmidt presented various scenarios which explored the effect of projected investment returns on the unfunded liability requirements. According to accepted accounting practices, the actuary can only consider contribution rate increases 24 months ahead. Therefore, the timing of the increases will have a definite effect on future actuarial reports. There was considerable discussion of rate increase implementation dates and the effect they would have on employer budgets. It was noted that if awarding a discretionary COLA would cause the amortization to go above 25 years, such a COLA would have to be paid for with a contribution rate increase.

Mr. Winkle will set individual appointments with the Trustees to discuss the contribution rate issues and to answer detailed questions. There was also mention of the fact that when PERSI rates increase and FRF rates do not, a lower percentage of the FRF contribution goes to pay down their amortization unless FRF rates are raised as well. Chairman Olson noted that the statutory amortization for FRF is 50 years. Trustees expect to make the PERSI contribution rate increase decisions at the November meeting.

Appeal of Director's Decision Re: Barbara Kramer: Chairman Olson invited Barbara Kramer to address the Board regarding her appeal. She had previously provided extensive background materials for each trustee. Ms. Kramer is requesting a change in the method of calculating the value of sick leave at time of termination for employees at LCSC. After considerable discussion, questions and answers, by motion duly made by Trustee Simmons, seconded by Trustee Johnson and unanimously approved, the Board upheld the decision of the Executive Director and denied the appeal. Trustee Simmons recommended that staff take a strong look at the Idaho Code and see how these rates are calculated. The rates should be equitable to everyone who contributes to the pool and all employer groups must be brought into compliance on this issue.

Status Update: Director Winkle reviewed the summary of PERSI projects report that had previously been provided to the Board. Mr. Winkle has spoken to constituent groups over the last month discussing the impending rate increase. The workflow study and investigation of digital imaging is continuing. We are also training staff in testing methods for the Galena system as changes and upgrades become a part of our normal work process.

New Employer:

Idaho Virtual Academy in Hailey is a new PERSI employer. The Academy received its charter in April and began reporting salaried employees in August 2002. There are 15 employees. Because Charter Schools are mandated by Idaho law as members of PERSI, no Board action is required.

FUTURE BOARD MEETINGS

Selection of dates for the 2003 Board meetings was delayed until the November meeting.

Tuesday, November 26, 2002, 8:30 a.m., Boise - PERSI office

Tuesday, December 17, 2002, 8:30 a.m., Boise - PERSI office

Adjournment: There being no further business to conduct, by motion duly made by Trustee Johnson seconded by Trustee Simmons and unanimously approved, the meeting was adjourned at 10:45 a.m.

Jody B. Olson
Chairman

Alan H. Winkle
Executive Director